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SUBJECT: EASTERN GERMANY HAS THE RIGHT CHEMISTRY

Summary

¶1. (U) The chemical industry is one of eastern Germany's most successful retooled industry sectors. Companies (including the U.S. firm Dow) invested in the region after the fall of the Wall. They acquired state-owned facilities and capitalized on their proximity and historic ties to eastern European markets, and the region's qualified and motivated workforce. Larger chemical companies have production facilities in the region, but keep their R&D facilities outside. Small and medium-sized companies with fewer resources have joined with other chemical companies, research facilities, and universities to synergize R&D efforts. Over the long term, it might be difficult to attract and retain qualified workers and expand production of specialty chemicals. End Summary.

Chemical Industry Strong and Growing

¶2. (U) The chemical industry is the fourth largest industrial sector in the Germany. After reunification in 1990, the former East Germany's state-owned chemical plants were privatized and by 2007 had total sales of 18 billion euros and a 16.2 percent growth rate, far above the national average of 7.1 percent. This high performance is due to eastern Germany's central location, modern transportation infrastructure and highly trained and motivated workforce.

Chemical Parks and Clusters Emphasize R&D

¶3. (U) Most chemical companies are small or medium-sized and work in R&D clusters. Six chemical parks provide infrastructure and utilities. For example, 750 companies, 12 university research institutions and 9 associated institutes have formed the "Future Cluster Chemistry/Plastics Central Germany" (CPCG) to maximize R&D efforts and product development. CPCG cluster spokesman Dr. Christoph Muehlhaus told Pol/Econ staff that this research emphasis developed only after privatization, as larger West German companies kept their R&D centers in the west and used eastern German facilities only for production.

¶4. (U) In addition, eastern German chemistry parks, chemical companies, business associations and service providers joined forces to form the "Central European Chemical Network" (CeChemNet). It hopes to create an innovation network integrating all aspects of chemical industry research and production. Likewise, in 2003, Saxony-Anhalt integrated 18 chemical regions from nine countries with German companies from the Central German Chemical Triangle into the "European Chemical Regions Network" (ECRN).

Challenges Ahead

¶5. (U) Despite these successes, the eastern German chemical industry faces two major challenges according to Harald Beer,

manager of the Dow facility in Schkopau, Saxony-Anhalt. Economic migration to the west and a low birth-rate could deprive the region of qualified employees. Second, eastern Germany's chemical companies produce large volumes of commodity chemicals (a partially processed product in high demand) which are distributed mostly in Russia and the Arabian Peninsula. Competition from chemical companies already established in those regions heightens the need for eastern Germany's chemical industry to diversify. Beer noted that Eastern German companies hope to stay competitive by expanding into specialty chemicals for the solar industry, new technologies, and products based on biomass.

Comment

16. (U) Eastern Germany's communist-era chemical industry has been successfully rebuilt and restructured. The small and mid-sized companies that evolved from privatization had the foresight to pool resources and knowledge and create new technologies to stay competitive. Continued growth in the sector could help drive eastern Germany's economy out of stagnation. The chemical industry, however, must recruit and retain qualified employees and induce research and production facilities to stay in or move to eastern Germany. End Comment.

17. (U) This message was coordinated with Embassy Berlin.

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